

# FISCAL NOTE

**Bill #:** HB0413                      **Title:** Increase cigarette tax for mental health care funding

**Primary Sponsor:** Erickson, R                      **Status:** As Introduced

Sponsor signature	Date	Chuck Swysgood, Budget Director	Date
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<b>Fiscal Summary</b>	<b>FY 2004 <u>Difference</u></b>	<b>FY 2005 <u>Difference</u></b>
<b>Revenue:</b>		
General Fund	\$29,639,163	\$28,739,223
State Special Revenue (02)		
DPHHS Mental Health Services	\$15,922,370	\$15,425,778
DPHHS Veteran's Nursing Homes	\$172,408	\$144,974
Capital Projects (05) LRBP	\$252,367	\$213,029
 <b>Net Impact on General Fund Balance:</b>	 \$29,639,163	 \$28,739,223

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|--|---|
| <input type="checkbox"/> Significant Local Gov. Impact<br><br><input type="checkbox"/> Included in the Executive Budget<br><br><input checked="" type="checkbox"/> Dedicated Revenue Form Attached | <input type="checkbox"/> Technical Concerns<br><br><input type="checkbox"/> Significant Long-Term Impacts<br><br><input checked="" type="checkbox"/> Needs to be included in HB 2 |
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## Fiscal Analysis

### ASSUMPTIONS:

1. The current law cigarette tax rate is \$0.18 per pack; under this proposal, the cigarette tax rate is increased by \$0.82 to \$1.00 per pack.
2. Under current law, cigarette tax revenues, after tribal revenue sharing payments, are distributed 73.04% to the state general fund; 15.85% to the Long-Range Building Program Account; and 11.11% to the Department of Public Health and Human Services for the operation and maintenance of state veterans' nursing homes.
3. Under this proposal, cigarette tax revenues, after tribal revenue sharing payments, are distributed 63.8% to the state general fund; 30% to the Department of Public Health and Human Services for mental health services; 3.65% to the Long-Range Building Program Account; and 2.55% to the Department of Public Health and Human Services for the operation and maintenance of state veterans' nursing homes.
4. This proposal decreases the discount rates that wholesalers receive. The rates drop from 6% of the full face value of the insignia (tax) to 1.08% for the first 2,580 cartons purchased; from 4% to 0.72% for the next 2,580 cartons purchased; and from 3% to 0.54% for purchases in excess of 5,160 cartons.
5. Increasing the cigarette tax rate from \$0.18 to \$1.00 per pack will generate new net revenue of \$42,444,568 in fiscal 2004 and \$40,922,261 in fiscal 2005. Revenue to the state general fund will *increase* by \$26,097,575 in fiscal 2004 and \$25,138,489 in fiscal 2005. Revenue to the Long-Range

**Fiscal Note Request HB0413, As Introduced**  
(continued)

Building Program Account will *increase* by \$252,367 in fiscal 2004 and \$213,029 in fiscal 2005.

Revenue to the Department of Public Health and Human Services for the operation and maintenance of state veterans' nursing homes will *increase* by \$172,408 in fiscal 2004 and \$144,974 in fiscal 2005.

Revenue to the Department of Public Health and Human Services for mental health services will *increase* by \$15,922,370 in fiscal 2004 and \$15,425,778 in fiscal 2005.

6. The impacts in assumption five are calculated using a model developed by the Department of Revenue (DOR). The Revenue and Transportation Committee (RAT) cigarette tax revenue estimate under current law for fiscal years 2004 and 2005 is used as the base. In addition to RAT's base estimate, a price elasticity of demand for cigarettes of 0.44 is used in this model. The model assumes the price of a pack of cigarettes will increase by the same amount (in dollars) of a tax increase. Given a base cost of \$3.21 per pack, which is used in this model, and an elasticity of 0.44, each penny increase in the price of a pack of cigarettes results in a decrease in demand of 0.14%.
7. The cigarette tax impacts provided for in this fiscal note include impacts associated with the price elasticity of demand for cigarettes, but do not include forecasts of declines in consumption of taxable cigarettes due to Internet sales of cigarettes, the impacts of current and future local government resolutions providing for non-smoking ordinances, or the effects of future increased tobacco prevention programs. These issues are being explored by the Department and will be incorporated in cigarette tax change impact analyses as data and forecast methodologies are further developed and refined.
8. The current law tobacco products tax rate is 12.5% of the wholesale price; under this proposal, the tobacco products tax rate is increased to 62.5% of the wholesale price, excluding moist snuff.
9. Under this proposal, moist snuff will be taxed \$0.83 an ounce.
10. Under current and proposed law, tobacco products tax (includes the moist snuff tax) revenues, after tribal revenue sharing payments, are distributed 100% to the state general fund.
11. The impacts of increasing the tobacco products tax rate to 62.5% of the wholesale price and creating the new tax on moist snuff of \$0.83 an ounce will *increase* net revenue going to the state general fund by \$3,541,588 in fiscal 2004 and \$3,600,734 in fiscal 2005.
12. The impacts in assumptions eleven are calculated using a model developed by the Department of Revenue (DOR). The Revenue and Transportation Committee's tobacco products tax revenue estimate under current law for fiscal years 2004 and 2005 is used as the base. In addition to the base estimate, a price elasticity of demand for tobacco products of 0.44 is used in this model. The model assumes a 10% markup from the wholesale list price to the retail price.
13. The following table shows the summary of the impacts from the cigarette tax increase and the tobacco tax increase plus the new tax on moist snuff under the assumption that there will not be significant stockpiling by the wholesalers or retailers of cigarettes taxed at \$0.18 per pack and tobacco products taxed at 12.5% of wholesale price, and there will not be significant amounts of illegal sales of cigarette and tobacco products.

**Fiscal Note Request HB0413, As Introduced**  
(continued)

**Summary of Cigarette, Tobacco, and Moist Snuff Tax Rate Increase Impacts  
HB413 (2003 Session) As Introduced<sup>1</sup>**

	<b>FY2004</b>	<b>FY2005</b>
<b>Cigarette Tax</b>		
<b>Net Revenue</b>		
Revenue - Current Law	\$ 10,630,000	\$ 10,497,000
Revenue - Proposed Law	\$ 53,074,568	\$ 51,419,261
<b>Change In Revenue</b>	<b>\$ 42,444,568</b>	<b>\$ 40,922,261</b>
<b>% Change In Revenue</b>	<b>399.3%</b>	<b>389.8%</b>
<b>Change in Revenue</b>		
General Fund	\$ 26,097,575	\$ 25,138,489
LRBP	\$ 252,367	\$ 213,029
DPHHS (Vet. Nursing Homes)	\$ 172,408	\$ 144,974
DPHHS (Mental Health Services)	\$ 15,922,370	\$ 15,425,778
<b>Tobacco Products and Moist Snuff Taxes</b>		
<b>Net Revenue</b>		
Total Tax Revenue - Current Law	\$ 2,353,000	\$ 2,444,000
Total Tax Revenue - Proposed Law	\$ 5,894,588	\$ 6,044,734
<b>Change In Total Revenue</b>	<b>\$ 3,541,588</b>	<b>\$ 3,600,734</b>
<b>% Change In Total Revenue</b>	<b>150.5%</b>	<b>147.3%</b>
<b>Change in Total Revenue</b>		
General Fund	\$ 3,541,588	\$ 3,600,734
<b>Impact From Both Taxes</b>		
<b>Net Revenue</b>		
Revenue - Current Law	\$ 12,983,000	\$ 12,941,000
Revenue - Proposed Law	\$ 58,969,157	\$ 57,463,995
<b>Change In Revenue</b>	<b>\$ 45,986,157</b>	<b>\$ 44,522,995</b>
<b>% Change In Revenue</b>	<b>354.2%</b>	<b>344.0%</b>
<b>Change in Revenue</b>		
General Fund	\$ 29,639,163	\$ 28,739,223
LRBP	\$ 252,367	\$ 213,029
DPHHS (Vet. Nursing Homes)	\$ 172,408	\$ 144,974
DPHHS (Mental Health Services)	\$ 15,922,370	\$ 15,425,778

<sup>1</sup>The impacts are calculated on the basis that there will not be significant stockpiling by wholesalers and retailers, and there will not be significant amount of illegal sales of cigarettes and tobacco products.

**Fiscal Note Request HB0413, As Introduced**  
(continued)

<u>FISCAL IMPACT:</u>	<u>FY 2004</u> <u>Difference</u>	<u>FY 2005</u> <u>Difference</u>
<u>Revenues:</u>		
General Fund (01)	\$29,639,163	\$28,739,223
State Special Revenue (02)		
DPHHS Mental Health Services	\$15,922,370	\$15,425,778
DPHHS Vet. Nursing Homes	\$172,408	\$144,974
Capital Projects Fund (05) LRBP	\$252,367	\$213,029
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>		
General Fund (01)	\$29,639,163	\$28,739,223
State Special Revenue (02)		
DPHHS Mental Health Services	\$15,922,370	\$15,425,778
DPHHS Vet. Nursing Homes	\$172,408	\$144,974
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